

## Message Text

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ACTION ARA-10

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R 302050Z JAN 76

FM AMEMBASSY PANAMA

TO SECSTATE WASHDC 6554

INFO AMEMBASSY GUATEMALA

AMEMBASSY SAN JOSE

PANCANAL

USSSOUTHCOM

C O N F I D E N T I A L PANAMA 0727

GUATEMALA PASS ROCAP

EO 11652: GDS

TAGS: EALR, EFIN, PN

SUBJECT: PANAMA ANNOUNCES "AUSTERITY" BUDGET FOR 1976

REF: PANAMA 0415

SUMMARY: GOP ANNOUNCED JANUARY 28 AN AUSTERITY BUDGET AND PUBLIC INVESTMENT PROGRAM OF \$463 MILLION AND \$473 MILLION, RESPECTIVELY, FOR 1976. BUDGET AIMED AT INVESTMENTS IN DIVERSIFIED AND EXPORT-ORIENTED PROJECTS TO REDUCE BALANCE OF TRADE DEFICIT AND AUSTERITY IN ADMINISTRATIVE SPENDING. GOP STATED ADDITIONAL \$235 MILLION PRIVATE SECTOR INVESTMENT NEEDED TO PUT COUNTRY BACK ON ITS FEET, ECONOMICALLY PANAMA'S PUBLIC DEPT PLACED AT \$928 MILLION OF WHICH \$709 MILLION OWED BY GOP AND REMAINDER BY GOP AUTONOMOUS AGENCIES. ANOTHER REASON FOR 1976 BUDGET AUSTERITY WAS INCREASE TO \$91 MILLION (28PERCENT OF BUDGET) IN PUBLIC DEPT SERVICING, UP 40 PERCENT FROM LAST YEAR. REPORTS HAVE IT GOP EXPERIENCING FINANCIAL DIFFICULTIES AND THAT ITS ESTIMATED  
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INCOME OF \$463 MILLION HIGHLY OPTIMISTIC. PRESENT UNCERTAINTY

FROM RECENT HAPPENINGS BETWEEN GOP AND PRIVATE SECTOR DOES NOT  
AUGUR WELL FOR RAPID ECONOMIC REVIVAL.

1. BEGIN UNCLASSIFIED: ON JANUARY 28, AN "AUSTERITY" BUDGET  
AND PUBLIC INVESTMENT PROGRAM OF \$463 MILLION AND \$473 MILLION,  
RESPECTIVELY, FOR 1976 WAS PUBLICLY ANNOUNCED BY DR. NOCOLAS  
A. BARLETTA, MIN OF PLANNING AND ECONOMIC POLICY.

2. ACCORDING TO PRESS REPORTS GOP BUDGET--15.8 PERCENT HIGHER  
THAN 1975--WAS BASED ON ESTIMATED INCOME OF \$321 MILLION FROM  
TAX REVENUE AND \$142 MILLION FROM FOREIGN BORROWING, REPORTEDLY  
MOSTLY SOFT AND LONG-TERM LOANS. ESTIMATED INCOME ONLY 8  
PERCENT HIGHER THAN LAST YEAR'S, BECAUSE OF RECESSION.  
BUDGET MAINLY GEARED FOR A)INVESTMENT IN DIVERSIFIED AND  
EXPORT-ORIENTED PROJECTS IN EFFORT TO REDRESS COUNTRY'S  
UNFAVORABLE TRADE BALANCE--WHICH REACHED \$246 MILLION IN  
1975, AND B) AUSTERITY IN OPERATING EXPENDITURES THRU IMPROVED  
ADMINISTRATIVE EFFICIENCY WITHOUT RAISING TAXES OR IMPOSING  
NEW LEVIES. NO RPT NO REDUCTION OF 65,000 CIVIL SERVANTS  
(TEACHERS ABOUT ONE-THIRD) WAS BEING CONTEMPLATED.

3. PANAMA'S PUBLIC DEBT PLACED AT \$928 MILLION, OF WHICH \$710  
MILLION OWED BY GOP (\$427 MILLION FOREIGN, \$283 MILLION  
DOMESTIC). BALANCE OF \$218 MILLION OWED BY AUTONOMOUS  
AGENCIES. ANOTHER REASON FOR AUSTERITY IN THIS YEAR'S BUDGET  
WAS INCREASE TO \$91 MILLION (28 PERCENT OF BUDGET) FOR PUBLIC DEBT  
SERVICING, UP 40 PERCENT FROM LAST YEAR.

4. THE PUBLIC INVESTMENT PROGRAM OF \$473 MILLION, BROKEN  
DOWN TO A) \$203 MILLION FOR SUCH PRODUCTIVE PROJECTS AS  
THREE NEW SUGAR PLANTS AT PACORA, PANAMA PROVINCE; AZUERO,  
CENTRAL PANAMA; AND ALANJE, CHIRIQUI PROVINCE; B) \$110 MILLION  
FOR HUMAN INFRASTRUCTURE (HEALTH, EDUCATION AND LOW COST  
HOUSING); AND C) \$157 MILLION FOR SUCH PROJECTS AS NEW INTER-  
NATIONAL AIRPORT, VACAMONTE FISHING PORT ON PACIFIC, NEW  
CONTAINER PORT ON ATLANTIC, COMPLETION OF BAYANO HYDROELECTRIC  
POWER PLANT IN DARIEN PROVINCE, AND CONSTRUCTION OF TWO  
ADDITIONAL ONES: LA ESTRELLA-LOS VALLES AND FORTUNA, BOTH  
IN CHIRIQUI PROVINCE, CEMENT PLANT, EXPANSION OF COLON FREE  
TRADE ZONE AND COLON WATER PURIFICATION PLANT, IMPROVEMENT OF  
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INTER-AMERICAN HIGHWAY IN THE CHORRERA-CORONADO AREA, AND  
ESTABLISHMENT OF 70"PRODUCTION SCHOOLS" IN RURAL AREAS. (FYI  
DATA NOT AVAILABLE FOR REMAINING \$3 MILLION). FOLLOWING FUNDING  
SOURCES FOR IMPLEMENTATION PUBLIC INVESTMENT PROGRAM: A) GOP,  
\$64.5 MILLION; B) INDEPENDENT GOP AGENCIES, \$127 MILLION; C)  
LOANS, \$122 MILLION; D) BONDS, \$8.7 MILLION, AND C) SUPPLIERS'  
CREDITS, \$150 MILLION.

5. BARLETTA REFERRED TO PANAMA'S SEVERE INFLATION YEARS OF 1973 AND 1974, THE 1975 RECESSION PERIOD HITTING A LOW DURING OCTOBER-NOVEMBER 1975, AND FIRST INDICATIONS OF UPTURN IN THE ECONOMY EARLY JANUARY 1976 HE POINTED OUT ADDITIONAL NEED OF ABOUT \$235 MILLION PRIVATE SECTOR INVESTMENT TO GET "THE COUNTRY BACK ON ITS FEET." BARLETTA PREDICTED A "SLOW BUT SUSTAINED REACTIVATION" OF THE ECONOMY, BASED ON INCREASED INVESTMENT IN BOTH THE PUBLIC AND PRIVATE SECTORS. HIS ESTIMATE OF 4-5 PERCENT REAL GROWTH IN 1976 (2PERCENT IN 1975) IS DOWN FROM EARLIER ESTIMATE OF 5.5 PERCENT (SEE REFTTEL).

6. BARLETTA ALSO DISCLOSED SEPARATE BUDGETS FOR 36 INDEPENDENT AGENCIES TOTALING \$856.9 MILLION).

7. OFFICIAL TEXT ON BUDGET WITH FURTHER ANALYSIS WILL FOLLOW UPON RECEIPT. END UNCLASSIFIED.

8. COMMENTS: REPORTS HAVE IT THAT CURRENTLY GOP IN FINANCIAL SQUEEZE AND THAT ITS ESTIMATED INCOME, PRIMARILY DEPENDENT ON TAX REVENUE, HIGHLY OPTIMISTIC. BUSINESSMEN EXPECTED TO PAY LESS TAXES THIS YEAR, BECAUSE OF LAST YEAR'S POOR BUSINESS CONDITIONS. RECENT GOP/PRIVATE SECTOR CONFRONTATION ADDS AN ELEMENT OF UNCERTAINTY TO ECONOMIC PROSPECTS FOR 1976, ESPECIALLY INVOLVING EXPECTED LEVEL OF PRIVATE INVESTMENT.

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